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TREASURY FOR INTERNATIONAL AFFAIRS (TRAN)  
COMMERCE FOR 4320/ITA/MAC/WH/ONIA (WORD)

E.O. 12958: N/A  
TAGS: [EFIN](#) [EINV](#) [ETRD](#) [PGOV](#) [CA](#)  
SUBJECT: Crawford Committee Seeks Retail Investor Support

REF: (A) Toronto 81 (B) Toronto 66 (C) 07 Toronto 430

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11. (SBU) Summary: On March 26, Purdy Crawford, Chair of the Pan-Canadian Committee, described his committee's plan to restructure the C\$33 billion third-party (non-bank sponsored) asset-backed commercial paper (ABCP) market to a crowd of over 500 financial sector leaders in Toronto. Crawford is working to convince a majority of the 1,600 reluctant retail investors to vote in favor of the restructuring plan on April 25. If the retail investors do not back the restructuring plan, Crawford is afraid that the market will unravel and there will be a fire sale. This could increase instability in Canada's financial sector, which until now has been affected relatively little by U.S. market events. Financial sector insiders expect the non-bank ABCP market collapse will prompt financial sector regulatory reform in Canada, but not until the dust settles on a fully restructured and functioning ABCP market. End Summary.

12. (SBU) On March 26, Purdy Crawford, Chair of the Pan-Canadian Committee tasked with restructuring the C\$33 billion third-party (non-bank sponsored) asset-backed commercial paper (ABCP) market, told more than 500 Toronto-area financial service leaders that investors should back his committee's restructuring plan. Working under temporary protection provided by an Ontario court on March 17 (ref (A)), Crawford and his committee must convince a numerical majority of about 1,600 reluctant retail investors to formally endorse the restructuring plan on April 25. Under the court-sanctioned agreement, a numeric majority of all investors, regardless of the value of their individual ABCP holdings (ranging from C\$150K for an individual note holder up to C\$23.2 billion for the Caisse de dppt et placement du Qubec), must approve the restructuring plan in order for it to go forward.

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"Facebook Group"  
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13. (SBU) A group of individual retail investors, referred to as the "Facebook Group," who collectively bought C\$269 million of the short-term paper through Vancouver-based Canaccord Capital, reportedly are pushing Canaccord and other vendors to ensure that retail investors receive close to 100% of the value of their paper before they vote on the restructuring plan in April. Crawford told the Toronto audience that he was prepared to make a deal with these investors, but could not guarantee 100 cents on the dollar. While there were no retail investors on his committee, Crawford explained that their omission was not intentional. The investor group only came forward, he said, after 90% of the committee's work had been completed. The committee is reportedly working to convince

financial institutions to loan investors up to 80% of the value of their ABCP for up to nine years (the duration of the longer term paper the investors would receive in exchange for their frozen holdings).

14. (SBU) On March 26, the Facebook Group announced that they have retained Toronto-based legal counsel and an investor advocate to review the restructuring plan. The group's legal counsel reportedly aims to negotiate a deal that allows retail investors to sell their ABCP immediately at full face value. Under the committee's proposed agreement, all investors will receive new notes, with long-term maturity dates of up to nine years (the original notes matured in three months), that better reflect the maturity of the underlying assets (e.g., car loans and leases, mortgages and home equity loans, as well credit card receivables). The Facebook group members claim they are experiencing financial hardship because they do not have access to their funds, which initially were invested in short term savings products on the advice of their brokers. Crawford pointed the finger at investment dealers, who, he says, wrongly advised some investors to buy ABCP, whose complexity made it difficult for individual investors to fully understand its risks and benefits.

15. (SBU) Investors are also reportedly balking at the proposed deal's prohibition on lawsuits against the issuers and retailers of the non-bank ABCP. The 20 trusts that issued the non-bank ABCP were regulated by the Ontario Securities Commission (OSC - for Ontario-based trusts) and the Autorit des marches financiers (AMF - for Quebec-based trusts). As part of the restructuring plan, provincially registered trusts were pooled together into several federally registered corporations, which could then be protected under the Companies' Creditors Arrangement Act (CCAA). The Canadian banks that provided the underlying assets packaged by the trusts are regulated by the federal Office of the Superintendent of Financial Institutions Canada (OSFI). Some of the underlying non-bank ABCP

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assets were provided by international banks that do not operate in Canada, so are not subject to Canadian financial sector oversight. The investment dealers who sold these investment instruments to their clients are self-regulated through the Investment Dealers Association of Canada (IDA).

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Crawford Optimistic  
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16. (SBU) While the deal is not yet sealed, Crawford expressed optimism that the committee would be able to strike a deal with the retail investors. Crawford stressed that the underlying assets are of relatively high quality (only 4 - 6% of the underlying assets are linked to sub-prime mortgages), and should provide investors with an income stream before the notes mature. Crawford said he believes the plan benefits all stakeholders, including retail investors, noting that all stakeholders, including large investors, have made significant concessions to reach the current plan. Crawford believes the plan will stabilize the market, enabling some investors to sell their long-term notes and recoup some of their funds upfront. The Crawford Committee is scheduled to meet with investors again to sell the plan on March 31, April 1, and April 2 in Toronto, Montreal, Edmonton, Calgary, and Vancouver. If the retail investors do not back the long-term restructuring plan, Crawford said he fears the commercial paper will be sold in a fire sale, which could increase instability in Canada's financial sector (until now affected relatively little by U.S. market events) and thus further disrupt global capital markets.

17. (SBU) Comment: Given Crawford's personal credentials as a heavyweight lawyer and former CEO, and his ability to negotiate the restructuring plan to this point, financial sector analysts are optimistic that he will be able to strike a deal with retail investors, and resuscitate the Canadian ABCP market. The stability of Canadian capital markets depend on it. If the deal - which would be the largest of its kind that does not involve a government bailout - goes through, the market could resume trading in the summer. Financial sector insiders expect the non-bank ABCP market collapse eventually will prompt financial sector regulatory reform

in Canada, but not until the dust settles on a fully restructured and functioning ABCP market. One outcome of the ABCP market experience may be to give more thrust to the federal government's goal of creating a single national securities regulator. End Comment.

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